

Message Text

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11

ACTION EB-07

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SUBJ: GOT INTRODUCES NEW MEASURES TO PROMOTE INCREASED INFLOW
OF PRIVATE FOREIGN CREDITS

REF A) ANKARA 216 JAN 10, 1973; B) ANKARA 3730; C) ANKARA A-177
SEPT 27, 1974.

1. NEW MINISTRY OF FINANCE RULES (COMMUNIQUE NO. 3 CONCERNING
DECISIONS NO. 7/5399 AND 7/10062) PUBLISHED IN
OFFICIAL GAZETTE JUNE 19 INDICATE GOVERNMENT IS CONTINUING
EFFORTS TO PROMOTE INCREASED INFLOW OF PRIVATE FOREIGN CREDITS
INTO TURKISH ECONOMY. THESE MEASURES SHOULD BE OF INTER-
EST TO U.S. BANKERS AS THEY OPEN THE POSSIBILITY THAT
FOREIGN LENDERS MAY BE ABLE TO GET SLIGHTLY HIGHER INTEREST
ON LOANS TO TURKISH BORROWERS AND ALSO ESTABLISH POSSIBILITY
OF OFFSETTING IMPACT OF 23 PERCENT WITHHOLDING TAX ON REMITTANCE

2. COMMUNIQUE IN EFFECT OVERRULES DECISION TAKEN IN JANUARY
1973 ESTABLISHING INTEREST EQUALIZATION FUND (SEE REF A) WHICH
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FORCED TURKISH BORROWERS FROM PRIVATE SOURCES ABROAD TO PAY

INTO THE INTEREST EQUALIZATION FUND ANY DIFFERENCE BETWEEN INTEREST RATE ON FOREIGN LOANS AND CURRENT DOMESTIC INTEREST RATE. STATE ECONOMIC ENTERPRISES AND PRIVATE CONCERNS BORROWING FOREIGN CREDITS FROM PRIVATE SOURCES ABROAD ARE NO LONGER OBLIGATED TO PAY INTO THE INTEREST EQUALIZATION FUND THE DIFFERENCE IN INTEREST BETWEEN FOREIGN AND DOMESTIC INTEREST RATES. PRIVATE SECTOR AND NOT GOVERNMENT WILL THUS BE PERMITTED TO BENEFIT FROM DIFFERENCE BETWEEN LOWER FOREIGN INTEREST RATES AND HIGH DOMESTIC ONES. THIS OPENS THE POSSIBILITY THAT FOREIGN LENDERS MAY IN FACT BE ABLE TO GET SOMEWHAT HIGHER INTEREST ON LOANS TO TURKISH BORROWERS.

3. THE MINISTRY ALSO AMENDED A RULING AUTHORIZING TURKISH BORROWERS TO PAY INTEREST ON FOREIGN CREDITS AT NO MORE THAN ONE PERCENT ABOVE THE EURO-MARKET RATE. THE CEILING HAS NOW BEEN RAISED TO 1.75 PERCENT. ANY INTEREST TO BE PAID ABOVE THIS RATE MUST RECEIVE SPECIAL PERMISSION FROM THE MINISTRY OF FINANCE.

4. THE RULING ALSO AMELIORATED BUT DID NOT REMOVE THE 23 PERCENT "PROFITS TAX" (20 PERCENT EXPENDITURE TAX AND 3 PERCENT FINANCIAL STABILITY TAX) ON INTEREST PAID FOR FOREIGN PRIVATE CREDITS. PREVIOUSLY, FOREIGN PRIVATE INSTITUTIONS LOANING FUNDS TO TURKEY HAD TO PAY THIS TAX, E.G., IN ORDER TO RECEIVE NET INTEREST OF 9.24 PERCENT, THE FOREIGN LENDER HAD TO CHARGE A MINIMUM GROSS INTEREST RATE OF 12PERCENT. WITH THE NEW RULING FOREIGN LENDING INSTITUTIONS CAN CONTRACT FOR NET INTEREST PAYMENTS. THE TURKISH INTERMEDIARY BANK OR PROJECT BORROWER WILL UNDER THESE CIRCUMSTANCES BE RESPONSIBLE FOR THE PAYMENT OF THE "PROFITS TAX" PROVIDED THE COMBINED SUM PAID FOR NET INTEREST AND "PROFITS TAX" DOES NOT EXCEED INTEREST RATES CHARGED ON SIMILAR LOANS IN TURKEY.

5. TURKISH BANKS AUTHORIZED TO HOLD FOREIGN EXCHANGE ARE ALSO PERMITTED UNDER THE TERMS OF THE COMMUNIQUE TO OBTAIN FOREIGN PRIVATE CREDITS FROM INTERNATIONAL FINANCIAL INSTITUTIONS. THE AUTHORIZED BANK MAY OPERATE SEPARATELY OR IN COMBINATION WITH OTHER AUTHORIZED BANKS. CREDITS OBTAINED MAY BE OFFERED TO DOMESTIC CORPORATIONS FOR EITHER DOMESTIC OR EXTERNAL FINANCING NEEDS. IF THE CREDITS ARE FOR THE PRIVATE SECTOR, THE MINISTRY OF FINANCE WILL GUARANTEE THE AVAILABILITY OF FOREIGN EXCHANGE FOR REPAYMENT. FOR STATE SECTOR CREDITS,

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THE MINISTRY WILL ISSUE BOTH AVAILABILITY AND REPAYMENT GUARANTEES.

6. COMMENT: THE RULING DISCUSSED ABOVE IS ONE OF A SERIES GOING BACK TO SEPTEMBER, 1974, WHEN THE GOT BEGAN TO BE CONCERNED ABOUT ITS FALLING FOREIGN EXCHANGE RESERVES. IT APPEARS THAT THE GOVERNMENT DURING THE PAST MONTH HAS BEEN RELATIVELY SUCCESSFUL IN ATTRACTING INFLOWS OF FOREIGN EXCHANGE

AND HOLDING ITS OFFICIAL FOREIGN EXCHANGE RESERVES AT AN EVEN
KEEL. OFFICIAL RESERVES HAVE HELD STEADY AT \$1,000 M. SINCE
MAY 16 EVEN IN THE FACE OF SLIGHTLY DECLINING WORKER REMITTANCES
AND A CONTINUING BALANCE OF TRADE DEFICIT. OFFICIAL SOURCES
INDICATE THAT TURKISH BANKS AUTHORIZED TO HOLD FOREIGN EXCHANGE
RESERVES HAVE ACCUMULATED \$80 M. IN FOREIGN EXCHANGE AND
\$230 M. IN CONVERTIBLE LIRA ACCOUNTS, THE BULK OF THIS HAVING
BEEN OBTAINED DURING THE LAST ONE AND A HALF MONTHS.
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